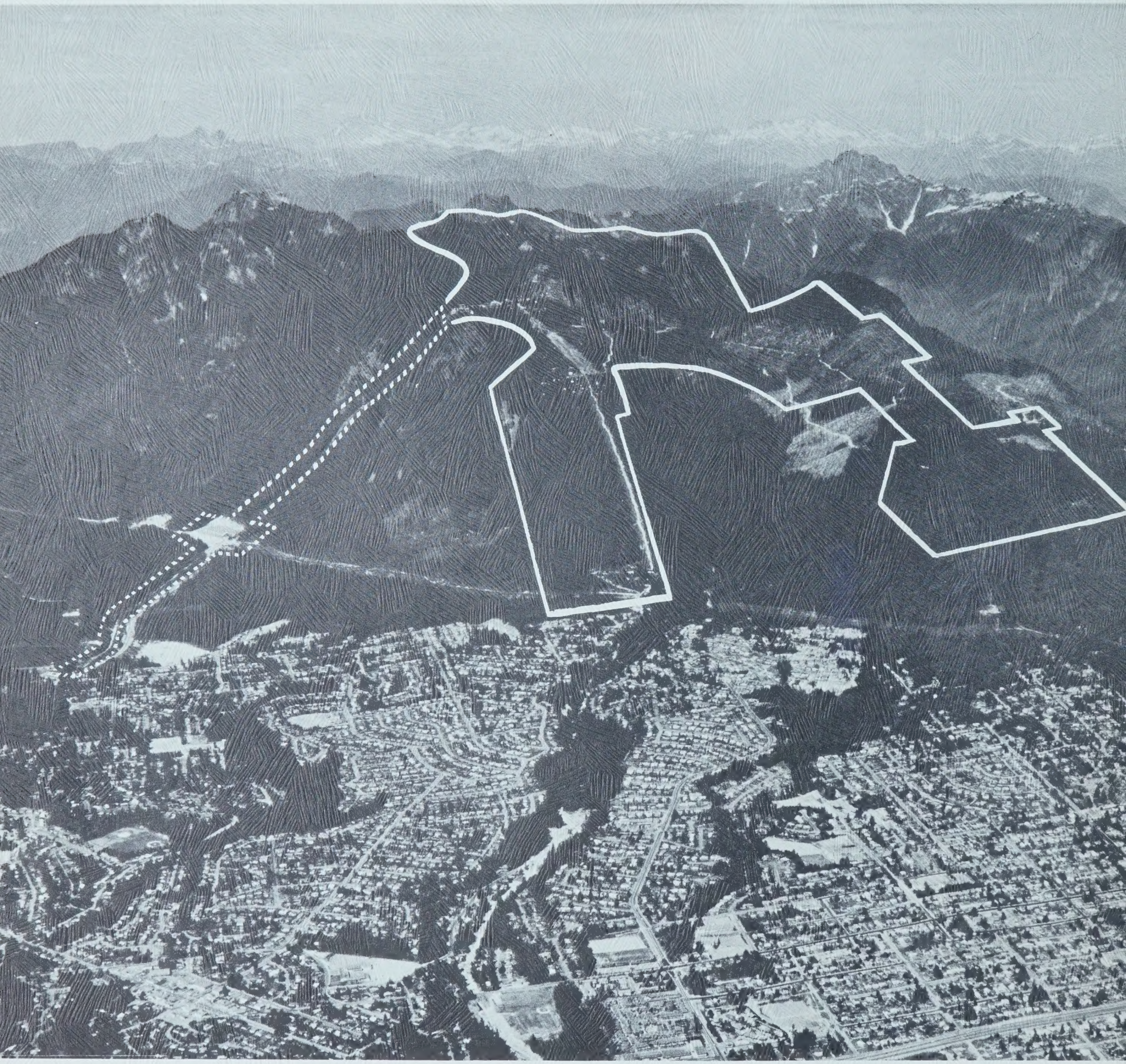
GROUSE MOUNTAIN RESORTS LTD.

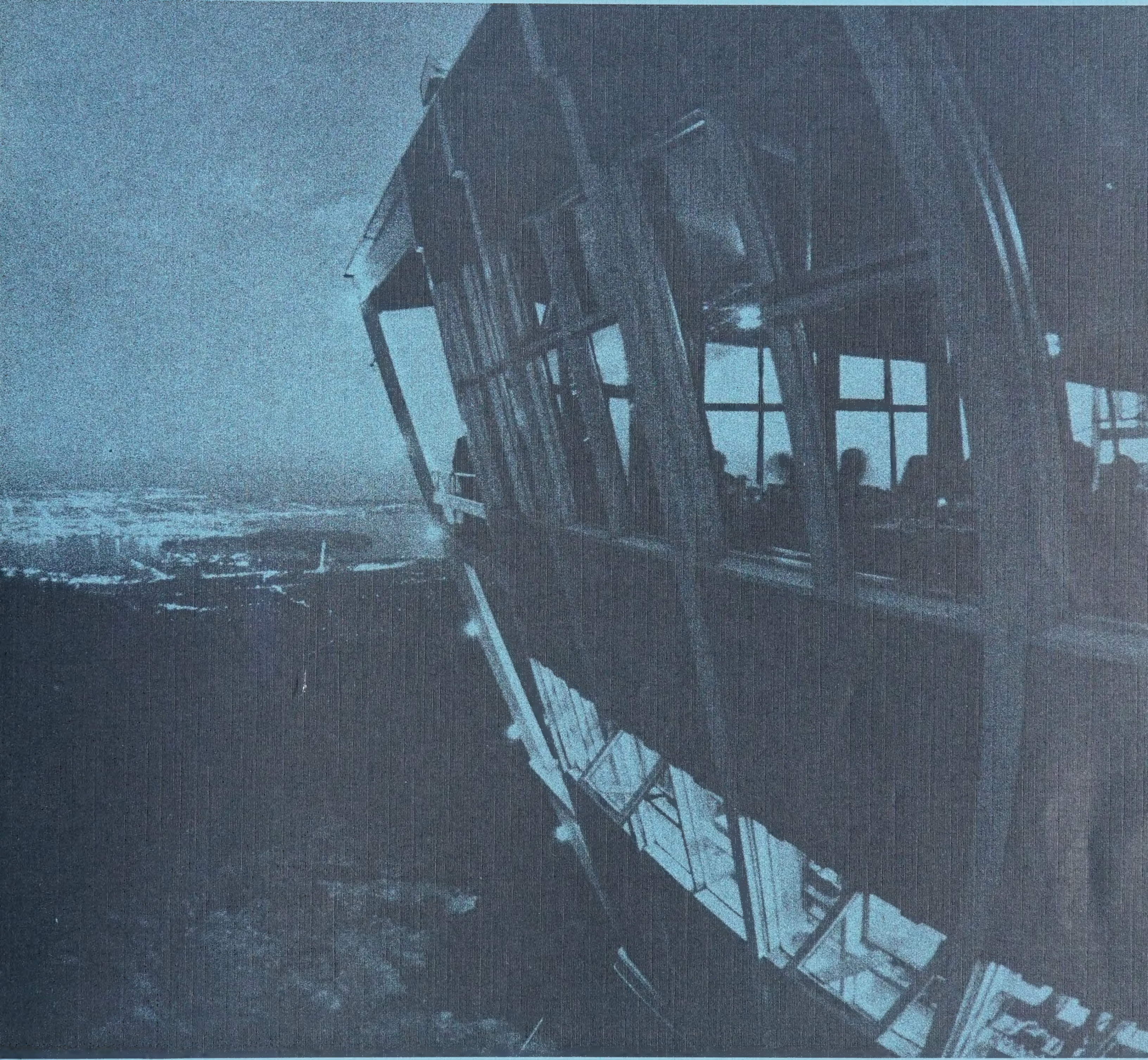
ad Comp

ANNUAL REPORT 1973

SKYRIDE



An aerial photo showing company's land holdings (within white line area).



Top of Grouse

REPORT TO SHAREHOLDERS

The 1973 fiscal year of Grouse Mountain Resorts presents a number of financial and operating statistics that indicate significant setback from the record performance of the previous year. However, certain positive developments have taken place which establish the base for an early recovery and for a more encouraging long range business pattern.

Clearly, the company has suffered a major decline from the performance enjoyed in fiscal 1972, with after-tax earnings of $271,670 reversing to a loss of $29,169. These comparative figures are each further reduced by approximately $55,000 as a result of applying newly recommended equity accounting rules to reflect the start-up losses of Canyon Aerial Tramways (which company is now approaching profitable levels of operation), resulting in a final loss per share of five cents compared to a profit of fourteen cents last year.

Many shareholders will recall the "snowless" year experienced during the 1969-70 season, when Grouse Mountain Resorts hosted the World Cup ski race. It is difficult to imagine facing yet a more depressing winter environment just three years later, but such was the case during the most recent 1972-73 season, this situation appearing at a time when an encouraging growth pattern was being established by the company.

As stated in the last Interim Report to Shareholders, Grouse Mountain was actually closed for skiing during Christmas Week, a phenomenon unknown in our history. This difficult situation initiated the down-trend in corporate earnings, with season pass customers hesitating to commit themselves for the year, and regular day customers, being unable to ski during the prime holiday period, losing interest in the sport early in the season.

As a result Grouse Mountain Resorts concluded its fiscal year with a passenger traffic total of 404,033, compared to 482,287 last year, and the lowest performance on record since fiscal 1970. The entire reduction was accounted for by the winter season, business for the first six months to November 30th being well ahead of the previous year. More specifically, Grouse Mountain experienced a decline of 105,000 skier-days for the season, while continuing to operate expanded lift and service facilities in anticipation of 1,000 more skiers each day than was actually realized, a situation that your Board of Directors has resolved must not be allowed to occur again — thus the recently announced commitment to install the world's third largest snowmaking system.

While the decline in skiing business has been severe, it should be noted that all other company activities on Grouse Mountain experienced advances over the previous year. The Grouse Nest restaurant, which predictably enjoyed favorable summer operations, continued unusually strong during the normally slow winter months, reflecting continued improvement in food preparation and service, and aggressive promotion of the banquet package program. Grouse Mountain's total food and beverage sales — emanating from the Grouse Nest restaurant, the Village Inn, the Rock, the Alpine Cafeteria and the Base Cafeteria — rose 13% over fiscal 1972, in spite of the 16% decrease in total mountain visitors.

A further advance — and a positive reflection on improved marketing techniques — is the 31% increase in gift shop sales, the bulk of which occurred during the tourist-oriented summer months, but which activity also continued steady throughout the winter and spring seasons. Appropriate expense control resulted in both the restaurant and gift shop meeting budgeted departmental contribution to corporate earnings, a situation that, while offset by the significant drop in mountain and skiing revenue, nevertheless maintains a satisfactory trend that should add to the performance of fiscal 1974.

A most encouraging development this past year has been the record performance of the Grouse Mountain Ski School which has experienced a steady increase in gross revenue since its commencement of business in 1966. In spite of last winter's restricted season the total number of students enrolled in various Ski School programs on Grouse Mountain rose from 6,000 to 8,000. This entire increase was accounted for by the popular and highly successful Head-Way® lesson program, where registration tripled from 1,000 to 3,000 students. The effectiveness of this particular instruction technique has been clearly demonstrated, and Grouse Mountain's exclusive position in the teaching of this method throughout the Lower Mainland, coupled with an effective promotional and service program, should see continued advance in this business in 1974 and the following years. The activities of the Grouse Mountain Ski School, its reputation among competitive schools and the high regard with which it is held by both the skiing and the non-skiing public of British Columbia represent a source of pride to your company.

Business performance of Grouse Mountain's affiliate companies, Pacific Undersea Gardens and Canyon Aerial Tramways, has been mentioned in quarterly reports throughout the year. The Undersea Gardens operation, managed with our 50% partner, Mr. Robert Wright of Victoria, again proved profitable in two of the three locations. The Victoria business was satisfactory, even though disrupted by major renovation and redecoration activity taking place during the latter part of the year — a project that has led to the attractive structure in the Inner Harbour being nominated by the Victoria Chamber of Commerce for the prestigious community beautification award presented by Canadian Park & Tilford.

Newport, Oregon maintained its historical position as the most profitable Garden in the chain, this year generating sufficient surplus cash to enable the purchase of the competitive visitor attraction, the Royal Pacific Wax Museum, both businesses presenting an attractive complement entering fiscal 1974.

The losses experienced at Crescent

City, California continue to offset the earnings in the other operations of Pacific Undersea Gardens, such that the total company completed the year at a break-even position. It is apparent that major changes in the basic operating pattern of Crescent City can no longer be delayed, a matter toward which management is currently directing full attention.

Fiscal 1973 saw the completion of various capital projects associated with the Hell's Gate development, coupled with a steady advance in visitor traffic. Public knowledge of the exciting tramway ride across the Fraser River to the salmon fishways, exhibit centre and gift shop is rapidly spreading, such that the traffic pattern originally predicted for this enterprise is beginning to be realized. The summer just concluded has seen Canyon Aerial Tramways achieve budget expectations, complete all outstanding payments on the original capital project and meet its scheduled commitment on the five-year bank loan. The losses incurred to establish this business have now been written off and future operation should provide positive contribution to Grouse Mountain's consolidated earnings.

Referring again to Grouse Mountain, it should be noted that fiscal 1973 was highlighted by the completion of certain major capital projects, that, while of marginal benefit as a result of the "snow drought", will serve to enhance the revenue and earnings picture of future years.

Most significant has been the expanded lift capacity on the "Cut" ski run and the creation of a second parallel ski slope now named the "Sidecut". Considerably expanded skiing activity is complemented by total uphill capacity of some 4,000 persons per hour now possible via the new chairlift (replacing the original unit that has served Grouse Mountain since 1951), and the unique double T-bar operation, with the attendant ability to alter capacity to complement the skiing pattern and demands on the hill.

These two new ski lifts and the new ski run, the cost of which was approximately $500,000, alone represented a capital development program considerably in excess of most other ski resorts in the Pacific Northwest. However, in addition to this expansion, your company invested a further $300,000 to extend the Top of Grouse building (specifically the dramatic, new Grouse cocktail lounge), acquire the building and ski shop operation of Ski World, install a major rental and ski service centre in the Outpost, purchase new snowgrooming, maintenance and communication equipment, extend the base parking lot, office and administrative facilities, and complete major surveys and reconnaisance studies relative to the design of the snowmaking system and the related real estate development plan.

It was your company's objective that the capital expansion program noted above might be entirely financed through cash flow realized during the year. The weather prevented this from being the case and bank assistance was sought to cover these obligations and also finance installation of the $1,500,000 snowmaking system, construction of which began in June, 1973.

The Bank of British Columbia, through an eight-year loan, supported Grouse in its plan to maximize customer service through improved control of the mountain environment. Full description of the snowmaking system is contained in the Grouse '74 newspaper which is being mailed to you with this annual report. Here it need only be noted that this progressive step will have a dramatic and positive influence on the business affairs of Grouse Mountain Resorts, bringing an era of predictability to customers' utilization of the mountain, to the revenue accruing to the corporation and to the return on shareholder investment.

In summary, your company has experienced a major financial setback due to the weather. It has happened before. Technological advances now permit something to be done about it.

This report should not be concluded without a vote of thanks to the staff of Grouse Mountain Resorts, whose dedicated efforts this past year doubled in the wake of the discouraging weather pattern. Under the direction of Mr. John Stokes, recently appointed as a Vice President of the corporation, they are committed to achieving a material improvement in business performance in fiscal 1974.

Your Board of Directors acknowledges the resignation of Mr. Arthur Phillips, recently elected as Mayor of the City of Vancouver, and wishes to express its appreciation to him for his contribution to the company over the past years. We welcome to the Board Mr. John C. Gilmer, President, Canadian Pacific Air Lines, and look forward to benefitting from his counsel and extensive business experience.

On behalf of the Board of Directors.

John E. Hoegg,

President.

CONSOLIDATED BALANCE SHEET

ASSETS

	May 31 1973	May 31 1972
CURRENT ASSETS		
Cash	$ 2,092	156,622
Receivables	44,592	39,156
Inventories (Note 2)	285,303	107,820
Prepaid expenses	51,107	67,082
	383,094	370,680
OTHER ASSETS		
Investments (Note 3)	429,554	468,473
Deferred costs (Note 4)	86,042	24,805
	515,596	493,278
PROPERTY, PLANT AND EQUIPMENT (Note 5)	4,271,496	3,713,646
	$5,170,186	4,577,604

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
CURRENT LIABILITIES		
Demand bank loan (Note 6)	$ 730,000	—
Payables and accruals	332,463	304,755
	1,062,463	304,755
DEBENTURES (Note 6)	629,000	629,000
DEFERRED INCOME TAXES (Note 7)	337,598	358,748
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	2,787,263	2,770,903
Contributed surplus (Note 9)	181,101	179,678
Retained earnings (Note 3)	172,761	334,520
	3,141,125	3,285,101
	$5,170,186	4,577,604

On behalf of the Board:

Andrew E. Saxton, Director **John E. Hoegg,** Director

CONSOLIDATED STATEMENT OF EARNINGS

	Year ended May 31, 1973	1972
REVENUE FROM OPERATIONS	$2,599,844	2,642,149
COSTS AND EXPENSES		
Cost of sales, general and operating expenses	2,270,251	1,785,414
Depreciation and amortization	314,081	278,296
Interest on long-term debt	45,797	45,591
Other interest	20,034	22,094
	2,650,163	2,131,395
EARNINGS (LOSS) BEFORE INCOME TAXES, SHARE OF LOSS OF INVESTEE COMPANY AND EXTRAORDINARY CREDIT	(50,319)	510,754
Deferred income taxes (Note 7)	(21,150)	239,084
EARNINGS (LOSS) BEFORE SHARE OF LOSS OF INVESTEE COMPANY AND EXTRAORDINARY CREDIT	(29,169)	271,670
Share of loss of investee company (Note 3)	54,089	55,371
EARNINGS (LOSS) BEFORE EXTRAORDINARY CREDIT	(83,258)	216,299
Extraordinary credit	—	166,757
NET EARNINGS (LOSS)	$ (83,258)	383,056

EARNINGS (LOSS) PER SHARE (Note 10)

Earnings (loss) before extraordinary credit	$(.05)	.14
Extraordinary credit	—	.11
Net earnings (loss)	(.05)	.25

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended May 31, 1973	1972
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR		
As previously reported	$389,891	(48,536)
Share of prior year's loss of investee company (Note 3)	(55,371)	—
AS RESTATED	334,520	(48,536)
NET EARNINGS (LOSS)	(83,258)	383,056
	251,262	334,520
DIVIDENDS	(78,501)	—
RETAINED EARNINGS AT END OF YEAR	$172,761	334,520

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended May 31, 1973	1972
SOURCE		
Working capital provided by operations and extraordinary credit (Note 11)	$ 273,302	957,573
Proceeds from issue of common shares (Note 8)	21,580	15,202
	294,882	972,775
APPLICATION		
Property, plant and equipment	872,707	271,885
Increase in investments	15,171	171,881
Market purchases of preference shares	3,797	—
Lease cancellation cost	70,000	—
Dividends	78,501	—
Reduction of long-term debt	—	300,000
	1,040,176	743,766
WORKING CAPITAL		
Increase (decrease) during year	(745,294)	229,009
Working capital (deficiency) at beginning of year	65,925	(163,084)
Working capital (deficiency) at end of year	$ (679,369)	65,925

May 31, 1973

1. Principles of consolidation

The financial statements include the accounts of the company and all subsidiaries. All material inter-company transactions are eliminated.

The comparative figures for 1972 have been restated for the retroactive change to the equity method referred to in Note 3, in accordance with a recent recommendation of the Canadian Institute of Chartered Accountants, and have been reclassified where applicable to conform to the presentation used in the current year.

2. Inventories

Inventories are valued at the lower of cost or net realizable value and comprise the following:

	1973	1972
Spare parts	$ 48,434	48,142
Food and merchandise	86,683	59,678
Rental equipment	150,186	—
	$ 285,303	107,820

3. Investments

	1973	1972
50% owned companies:		
Shares, at cost	$ 10,500	10,500
Advances	201,887	188,043
	212,387	198,543
Investee company shares, at cost less share of loss	217,167	269,930
	$ 429,554	468,473

The company's investment in shares of one of the 50% owned companies is recorded at cost, which is nominal in amount, plus advances to such company, and has not been reduced by operating losses incurred since acquisition as the advances are secured and considered fully collectible. The investment in and advances to the other 50% owned company are stated at cost, which is equal in amount to that computed on the equity basis, as the company has not carried on active business since incorporation.

The company has given retroactive effect to the change from the cost method to the equity method of accounting for the investee company (Canyon Aerial Tramways Ltd.) shares which represent 42% of the outstanding shares of that company. The effect of the change is to increase the net loss by $54,089 (decrease 1972 net earnings by $55,371) with a corresponding reduction in the carrying value of the investee company shares.

4. Deferred costs

	1973	1972
Unamortized debenture discount	$ 23,039	24,805
Unamortized lease cancellation cost	63,003	—
	$ 86,042	24,805

5. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation.

	1973	1972
Land	$ 391,896	391,896
Buildings, tramway, chairlifts and other mountain equipment	5,609,450	4,740,635
	6,001,346	5,132,531
Accumulated depreciation	1,729,850	1,418,885
	$4,271,496	3,713,646

Depreciation is provided on the straight line method at the following rates:

Buildings, tramway and chairlifts	5%
Machinery and equipment	10%
Automotive equipment	20%

6. Demand bank loan and debentures

The demand bank loan is secured by a first fixed charge on land and certain assets of the company and a floating charge on all other assets to a limit of $1,000,000.

The 7% convertible redeemable sinking fund debentures maturing June 15, 1986 are secured by a fixed charge on land and certain assets of the company and a floating charge on the remaining assets, subrogated to the security given for the demand bank loan.

Purchase fund requirements to 1977 have been met by conversions and redemptions to date. The outstanding debentures are convertible into common shares at the option of the holders. The rate for conversion of debentures into common shares is fixed at 500 shares per $1,000 of debentures until June 30, 1976 and thereafter at 469.5 shares per $1,000 subject to change in accordance with the anti-dilution provisions of the trust deed.

7. Deferred income taxes

In prior years the company claimed deductions for income tax purposes exceeding those recorded in the accounts. A provision has been made in the accounts for income taxes deferred as a result of such timing differences. During the current year expenses recorded in the accounts exceeded deductions available for tax purposes resulting in a reduction of deferred income taxes.

8. Share capital

Common shares:

Authorized 2,729,392 shares without nominal or par value.

Preference shares:

Authorized 270,608 6% non-cumulative first preference shares with a nominal or par value of $2.35 each, redeemable at $2.45 per share (which were convertible into common shares to June 30, 1971 on a share for share basis).

	1973		1972	
	Shares	Amount	Shares	Amount
Common shares issued:				
Balance at beginning of year	1,532,494	$2,744,369	1,467,340	$2,602,659
Issued on conversion of preference shares	—	—	53,854	126,507
Issued for cash under employee stock options	15,450	21,330	11,300	15,203
Issued as gift under promotional plan	100	250	—	—
Balance at end of year	1,548,044	2,765,949	1,532,494	2,744,369
Preference shares issued:				
Balance at beginning of year	11,270	26,534	65,124	153,041
Market purchases for redemption	(2,200)	(5,220)	—	—
Converted to common shares	—	—	(53,854)	(126,507)
Balance at end of year	9,070	21,314	11,270	26,534
Total share capital		$2,787,263		$2,770,903

The company has reserved 470,625 common shares which it may be required to issue under the following circumstances:

a) Pursuant to the terms of stock option plans certain employees have been granted options to purchase 56,000 common shares at prices from $1.25 to $3.47 exercisable at varying dates to May 31, 1976.

b) Pursuant to the provisions of the agreement made in 1969 for the acquisition of the shares of a former subsidiary, the company issued warrants entitling the holders to purchase 32,000 common shares at $4.00 per share up to July 2, 1974. At the company's option, prior to June 2, 1974, it may issue up to a further 68,125 common shares in exchange for 224,000 preference shares of $1 par value of the former subsidiary and certain shareholders' loans. Based on the audited financial statements of the former subsidiary at May 31, 1973 the loans have an aggregate book value of $92,000. If the company does not exercise this option the vendors of the shares of the former subsidiary may require it to do so within thirty day from expiry of the option.

c) The debentures outstanding at May 31, 1973 are convertible into 314,500 common shares.

9. Contributed surplus

The increase in contributed surplus of $1,423 during the year resulted from the purchase of preference shares. There were no changes in contributed surplus during the year ended May 31, 1972.

10. Earnings [loss] per share

Earnings (loss) per share are restated to take into effect the retroactive change to the equity method referred to in Note 3 and are based on the weighted average number of common shares outstanding during each year.

Fully diluted net earnings (loss) per common share before extraordinary credit are $(.05) in 1973 and $.13 in 1972 and after extraordinary credit are $(.05) in 1973 and $.21 in 1972. Fully diluted amounts assume conversion of shareholders' loans of a former subsidiary and in 1972 assume exercise of outstanding employee stock options and conversion of debentures (both of which are anti-dilutive in 1973) as described in Note 8.

11. Working capital provided by operations and extraordinary credit

Working capital has been provided by net earnings as follows:

	1973	1972
Operations:		
Earnings (loss) before extraordinary credit	$(83,258)	216,299
Depreciation	314,081	278,296
Debenture discount amortized	1,767	1,766
Lease cost amortized	6,997	—
Deferred income taxes	(21,150)	239,084
Loss on disposal of fixed assets	776	—
Share of loss of investee company	54,089	55,371
	273,302	790,816
Extraordinary credit	—	166,757
	$ 273,302	957,573

12. Commitments and contingent liabilities

Outstanding agreements for the purchase of property, plant and equipment are approximately $1,400,000 and in this connection, the company has arranged a term bank loan in the amount of $1,600,000 in addition to the demand bank loan outstanding at May 31, 1973.

Bank loans to the investee company amounting to $209,900 at May 31, 1973 are guaranteed by the company.

13. Remuneration of directors

The aggregate remuneration paid by the company to directors and senior officers amounted to $109,800 for the year ended May 31, 1973 ($119,800 for 1972), including $2,800 ($1,800 for 1972) to directors in their capacity as directors.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Grouse Mountain Resorts Ltd. and subsidiaries as of May 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at May 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the equity method of accounting for a long-term investment as described in Note 3 of notes to consolidated financial statements, on a basis consistent with that of the preceding year.

Vancouver, British Columbia
August 24, 1973

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Hell's Gate Airtram
Fraser Canyon, B.C.

Undersea Gardens
Victoria, B.C.

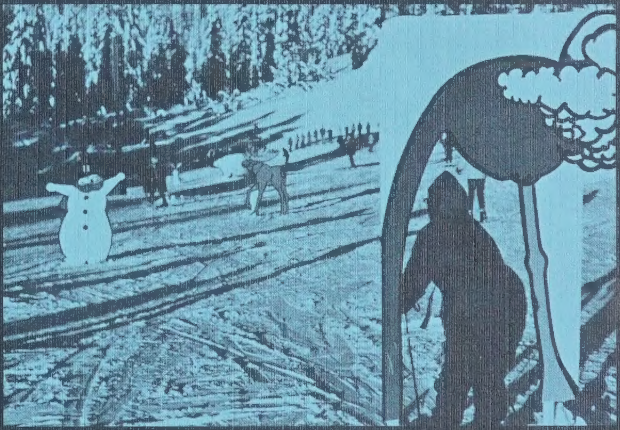
Undersea Gardens Crescent City, California

Undersea Gardens Newport, Oregon

Royal Pacific Wax Museum Newport Oregon

SNOWMAKING

The 3rd largest snow making system in the world with 10 miles of pipeline, 117 hydrants and 25 guns will create an acre foot of snow per hour. The system will be supplemented by 2 airless Hedco snow guns.



SKI SCHOOL

Junior Students and Instructors enjoy beautiful sunny days on Grouse Mountain.

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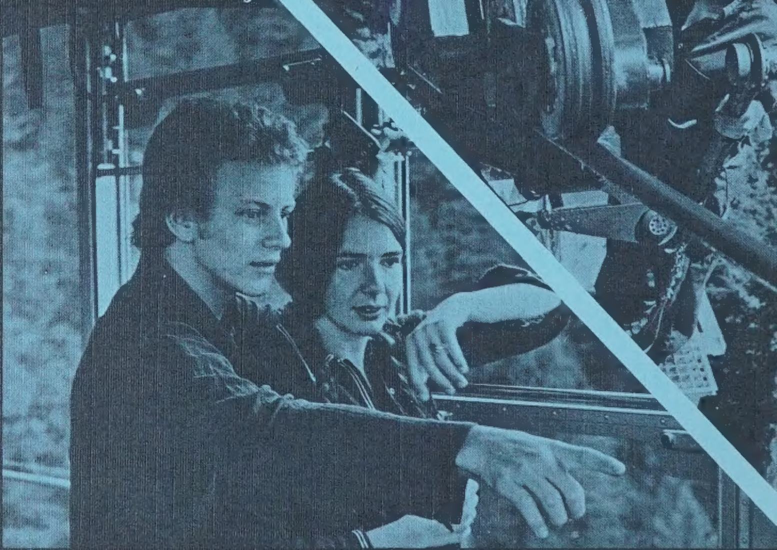

From Fiji Firewalkers (1), to Miss P.N.E. contestants (2), to Australasian Commonwealth Parliamentarians (3), to Lord Mais, The Lord Mayor of London (4), they came to Grouse Mountain. Some, like our summer tram conductors, came to work (Vancouver Province photo) (5), others, as in this Vancouver Sun photo, came to play (6). Celebrities such as Leon Bibb (7), and Brent Carver and Ann Mortifee (8), sang our praises while wives of conventioneers (Vancouver Prov. photo) (9), and the usual flow of daily tourists rode the Skyride to the Top of Grouse described in "Travel Guide to Canada" as "Probably the finest single viewpoint in Canada," (10).

10

Corporate Officers
ANDREW E. SAXTON, Chairman of the Board
JOHN E. HOEGG, President
GOWAN T. GUEST, Secretary

Corporate Directors
DAVID S. BEATTY, Toronto, President, Davebar Investments Ltd.
JOHN C. GILMER, Vancouver, President, Canadian Pacific Airlines Ltd.
ELWYN E. GREGG, Vancouver, Retired Vice President, Western Plywood Co. Ltd.
JOHN E. HOEGG, Vancouver, President of the Company
PETER PAUL SAUNDERS, Vancouver, President, Cornat Industries Limited
ANDREW E. SAXTON, Vancouver, Chairman of the Board of the Company
GEORGE D. SHERWOOD, Vancouver, Vice President, Odlum Brown & T.B. Read Ltd.
CHARLES R. WHITE, Victoria, President, Saltaire Products Ltd.

Grouse Mountain Operations
JOHN B. STOKES, Vice-President and General Manager
GEORGE V. BIGA, Director of Restaurant Operations
GARY R. KIEFER, Director of Mountain Operations
BARRY D. MCKNIGHT, Controller
HARVEY E. OUELLETTE, Executive Assistant to the Vice-President
BRUCE L. MCINTOSH, Marketing Representative
ELIZABETH TOUCHETTE, Public Relations Officer

Undersea Gardens Operations
ROBERT WRIGHT, Senior Operating Officer
PETER A. TREDGETT, General Manager
LESLIE WOOD, Victoria Manager
JACK NIELSEN, Newport Manager
NORMA B. SAUNDERS, Crescent City Manager

Canyon Aerial Tramways
CHARLES N. W. WOODWARD, Chairman of the Board
ANDREW F. B. MILLIGAN, President

Auditors
Peat, Marwick, Mitchell & Co.

Banks
Bank of British Columbia
Bank of Montreal
Toronto-Dominion Bank
Bank of Newport
Wells Fargo Bank

Solicitors
Alexander, Guest, Wolfe, Holburn & Beaudin

Transfer Agent and Registrar
Yorkshire and Canadian Trust Limited

Trustees
National Trust Company, Limited

Offices
EXECUTIVE OFFICE: Three Bentall Centre,Vancouver, B.C.
Telephone 683-2293

SKYRIDE AND ADMINISTRATION: 5100 Capilano Road, North Vancouver, B.C.
Telephone 988-6151

GROUSE NEST RESTAURANT: Top of Grouse Mountain, North Vancouver, B.C.
Telephone 985-7188